COURT FILE NUMBER	1101-~~09476~~ 16110
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANTS	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED AND IN THE MATTER OF OILSANDS QUEST INC., OILSANDS QUEST SASK INC., OILSANDS QUEST TECHNOLOGY INC., 1291329 ALBERTA LIMITED, STRIPPER ENERGY SERVICES INC., TOWNSHIP PETROLEUM CORPORATION, WESTERN PETROCHEMICALS CORP. and 1259882 ALBERTA LTD.
DOCUMENT	**SECOND REPORT OF THE MONITOR** **JANUARY 5, 2012**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR**

CLERK OF THE COURT
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TABLE OF CONTENTS OF THE SECOND REPORT

INTRODUCTION

1. On November 29, 2011, Oilsands Quest Inc., Oilsands Quest Sask Inc., Oilsands Quest Technology Inc., 1291329 Alberta Limited, Stripper Energy Services Inc., and Township Petroleum Corporation (collectively "Oilsands Quest" or the "Company") sought and obtained protection from their creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended, (the "CCAA") pursuant to an order of this Honourable Court (the "Initial Order").

2. On December 20, 2011 two largely inactive wholly owned subsidiaries of Oilsands Quest Inc., Western Petrochemicals Corp. and 1259882 Alberta Ltd. were added to these CCAA proceedings.

3. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Company (the "Monitor").

4. The purpose of this second report (the "Second Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect of the following:

    a) The application by Oilsands Quest for the retention of TD Securities Inc. ("TD") as the Company's financial advisor (the "Financial Advisor");

    b) The application by Oilsands Quest for a Solicitation Process (as defined and discussed below);

    c) The budget to actual cash flow results for the period for November 29, 2011 to December, 31 2011 (the "Reporting Period"); and

    d) The Monitor's recommendations.

5. Capitalized terms not defined in this Second Report are as defined in the Initial Order.

6. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

7. The Company is a development stage company which holds certain permits, licenses and leases in Alberta and Saskatchewan allowing it to explore and develop natural resource properties. To date the Company has not received any revenue from any of its natural resource properties, and none of its projected resources have been classified as proved reserves. The Company expects that significant additional exploration and development activities will be necessary to establish proved reserves, and, if reserves are proven, to develop the infrastructure necessary to facilitate production from its natural resource properties.

8. The Company's oil sand permits and leases in Alberta and Saskatchewan (collectively the "Oilsands Assets") are located at:

   a) Axe Lake, SK;

   b) Wallace Creek, AB;

   c) Raven Ridge, AB; and

   d) Eagles Nest, AB.

9. Further background for the Company and its operations is contained in the materials filed in support of the application for the Initial Order including the November 28, 2011 affidavit of Mr. Garth Wong (the "November 28 Wong Affidavit") and the First Report of the Monitor dated December 15, 2011 (filed December 16, 2011) (the "First Report"). This document, together with other information regarding these CCAA proceedings, has been posted by the Monitor on its website at: www.ey.com/ca/oilsandsquest.

TERMS OF REFERENCE

10. In preparing this Second Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Company. The Monitor has not performed an audit, review or other verification of such information.

FINANCIAL ADVISOR

11. As indicated in the First Report, Oilsands Quest wishes to revitalize the strategic alternatives process and further amend its engagement of TD to allow TD to assist in identifying and analyzing potential strategic alternatives available with respect to Oilsands Quest's Oilsands Assets, establish a solicitation process for Court approval and, if approved by the Court, lead the solicitation process.

12. The engagement of TD as Financial Advisor to Oilsands Quest is pursuant to an engagement letter dated August 13, 2010 between the Financial Advisor and Oilsands Quest, the term of which was extended and amended by letters dated February 8, 2011 and January 4, 2012 (collectively the "Engagement Letter"). The Engagement Letter is subject to Court approval.

13. The detailed terms of the Engagement Letter are contained as Exhibits in the January 5, 2012 Confidential Affidavit of Mr. Garth Wong. In summary TD's proposed role as Financial Advisor to Oilsands Quest includes:

    a) Assisting in identifying and analyzing potential strategic alternatives available with respect to the Oilsands Assets;

    b) Assisting in the preparation of appropriate marketing materials for such process;

c) Identifying potential counterparties and summarizing possible transaction alternatives with each of these parties;

d) Assisting with an evaluation and assessment of each alternative being considered;

e) Assisting in all negotiations between Oilsands Quest and potential interested parties leading to the signing of definitive agreements acceptable to Oilsands Quest;

f) Presenting any analysis, as required, to Oilsands Quest's Board of Directors; and

g) Reviewing and providing comments, as required, on any disclosure documents prepared for distribution to its shareholders or to regulatory authorities in connection with any potential transaction.

14. The terms of the Engagement Letter require that the Financial Advisor be granted a charge (the "Financial Advisor Charge") in the maximum amount of $1 million over the Oilsands Assets as security for all amounts due to be paid to the Financial Advisor pursuant to the terms of the Engagement Letter.

15. The Financial Advisor Charge is proposed to rank *pari passu* with the Administration Charge.

16. The Monitor worked with Oilsands Quest, its counsel and TD in the drafting of the Engagement Letter and, based on the Monitor's previous experience with the retention of Financial Advisors in CCAA proceedings, the Monitor considers the terms and fees associated with the engagement reasonable in the circumstances.

SOLICITATION PROCESS

17. Oilsands Quest is seeking an order from this Honourable Court to approve a Court-supervised process to solicit offers to acquire, restructure or recapitalize Oilsands Quest (the "Solicitation Process").

18. The Solicitation Process is attached to the proposed form of Order to 'Engage TD Securities Inc. and conduct Solicitation Process', which is attached to the Company's Application.

19. The Solicitation Process was drafted by Oilsands Quest, its counsel, the Financial Advisor and the Monitor.

20. The Solicitation Process is summarized below:

a) To maximize interest in the Solicitation Process, an advertisement will be placed in the *Globe & Mail* (National Edition), *Calgary Herald* and the *Daily Oil Bulletin*;

b) Interested parties will be required to execute appropriate confidentiality agreements ("CAs");

c) Upon the execution of CAs, interested parties will receive a confidential information memorandum;

d) Oilsands Quest, with the assistance of its Financial Advisor, will make presentations to the interested parties;

e) Oilsands Quest with the assistance of its Financial Advisor, will identify proposals from interested parties that are in the best interests of Oilsands Quest and its stakeholders and will encourage these parties to submit a binding offer; and

f) Court approval of any proposal will be required and Oilsands Quest reserves the right to reject any or all offers received.

21. Oilsands Quest anticipates that the Solicitation Process will commence upon the granting of the proposed Order, that a short list of potential bidders will be completed on or before March 12, 2012, and anticipates seeking Court approval of definitive agreements by mid-April 2012.

22. The Solicitation Process will be undertaken by Oilsands Quest, with the assistance of the Financial Advisor and the Monitor. The Monitor will provide periodic updates and it recommendations to the Court during the Solicitation Process.

23. The Monitor believes that the Solicitation Process is reasonable and will allow Oilsands Quest to achieve a transaction that will maximize the value of its Oilsands Assets while under these CCAA proceedings.

BUDGET TO ACTUAL RESULTS

24. The cash flow budget to actual presented below for the Reporting Period contains the actual cash receipts and disbursements as compared to the Cash-Flow Statement as attached to the November 28, 2011 Wong Affidavit.

Oilsands Quest Inc.
Budget to actual Cash flow results
for the period of November 29, 2011 to December 31, 2011
CDN $

	ACTUAL	FORECAST	VARIANCE
RECEIPTS			
Camp Service	-	-	-
Alberta Road Maintenance	-	-	-
Main Road Maintenance	-	-	-
GST collected	130,327	130,327	-
Total receipts	130,327	130,327	-
DISBURSEMENTS			
Corporate recurring G&A	75,720	56,687	(19,033)
Corporate payroll and benefits	146,971	144,257	(2,714)
Insurance	-	10,000	10,000
Operating Expenses	457,034	357,829	(99,206)
Land tenure	2,600	-	(2,600)
Litigation	-	-	-
Strategic alternatives process	-	-	-
CCAA professional fees	-	200,000	200,000
Total disbursements (before interest payments)	**$ 682,325**	**$ 768,772**	**$ 86,447**
NET CASH FLOWS	**$ (551,998)**	**$ (638,445)**	**$ (86,447)**
OPENING CASH	$ 3,282,913	$ 3,282,913	-
NET CHANGE IN CASH FLOWS	(551,998)	(638,445)	86,447
ENDING CASH	$ 2,730,915	$ 2,644,467	$ 86,447

25. As expected, the only cash receipt for the Reporting Period was $130 thousand of GST received from the CRA.

26. Operating disbursements for the Reporting Period totalled approximately $682.3 thousand representing a positive variance of approximately $86.4 thousand to the anticipated amounts. This positive variance relates primarily to:

    a) a positive variance of approximately $200 thousand relating to the timing of CCAA professional fees that will be paid in January 2012;

    b) a negative variance of approximately $99 thousand relating to the timing of certain operating camp expenditures that were expected to be paid in January 2012 but were paid in the Reporting Period;

    c) a positive variance of approximately $10 thousand relating to the timing of insurance payments; and

    d) a negative variance of approximately $15 thousand relating to an unforeseen business tax refund issued to sub-tenant as a result of transferring building occupancy during the Reporting Period.

27. Oilsands Quest has kept all of its obligations to all its employees current during the Reporting Period.

RECOMMENDATIONS

28. The Monitor recommends that this Honourable Court approve:

a) the Engagement Letter; and

b) the Solicitation Process.

Dated at Calgary, this 5th day of January, 2012.

ERNST & YOUNG INC.
in its capacity as
Monitor of Oilsands Quest

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Cassie Hern, CA
Manager